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DE RUEHMD #0397/01 1091341
ZNR UUUUU ZZH
R 191341Z APR 09
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 0533
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 MADRID 000397

SIPDIS

STATE FOR EUR/WE, EEB/IFD/OMA, EEB/CIP/BA
TREASURY FOR OIA/OEE/T.O'KEEFFE, D.WRIGHT
COMMERCE FOR 4212/D.CALVERT

E.O. 12958: N/A

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SUBJECT: MADRID ECONOMIC WEEKLY, APRIL 6-17

REF: MADRID 129

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Inflation Negative, but No Sustained Deflation

1.(U) Confirming previous estimates, the consumer price index in March was 0.1% below its level of March 2008, the first negative year-on-year inflation in the index's 48-year history. COMMENT: This should not necessarily increase concern about deflation. Prices actually rose 0.2% between February and March; the year-on-year rate only turned negative because prices had risen even faster between February and March 2008. The underlying inflation rate (without energy or food prices) is declining but positive at 1.3%. Year-on-year inflation rates are expected to remain negative at least through the summer, as 2009 prices are compared with 2008 prices when oil was much higher. The question will be whether, despite now-steady oil prices, the reduction in consumption and activity will push overall prices down from one month to the next over a period of months. (National Statistics Institute, 4/15)

Economy Vice Minister Vegara to Resign

2.(U) Secretary of State for Economy David Vegara has informed new 2nd Vice President and Economy/Finance Minister Salgado that he will resign within a month. Some reports suggest that Vegara's departure is related to the expectation that Salgado, responding to President Zapatero's wishes, will increase government spending even more. Vegara was the Ministry's key economic policymaker under Salgado's predecessor, Pedro Solbes, who often said that the already high budget deficit (likely to surpass 6% of GDP this year) left little room for additional spending. (Comment: Statements by Central Bank officials also suggest objections to further spending increases.) Other articles speculate that Vegara may have hoped to replace Solbes or receive another ministerial position in last week's cabinet shuffle. Before leaving, Vegara will accompany Salgado to the upcoming IMF/World Bank spring meetings and to the May EU Economy/Finance ministerial. No successor has been named. (El Confidencial, 4/9, 4/14; Expansion, 4/9)

Number of Foreclosures Rising, Rate Still Low

3.(U) Residential foreclosures more than doubled in 2008, surging in the fourth quarter. In all of 2007, there were

fewer than 26,000 foreclosures; in 2008, there were over 58,000, with over 21,000 coming in the year's fourth quarter.

(Comment: As a percentage of the number of households, Spain's rate is still far below that of the U.S., despite high and rising unemployment. Possible reasons for the difference may include Spain's relatively generous unemployment benefits and the fact that Spaniards are liable for the full value of their mortgages, even if the property's value has fallen below that of the mortgage. However, with unemployment expected to continue its rise, the rate of foreclosures is likely to continue growing. End Comment.) (El Pais, 4/14)

Central Bank Head's Social Security Statements Controversial

4.(U) Central Bank Governor Miguel Angel Fernandez Ordonez urged a Congressional committee to quickly reform the social security system to head off future solvency problems, saying the economic crisis could cause the system's receipts to fall below expenditures this year. Fernandez Ordonez said increasing retirement ages was one of many possibilities that should be considered, and he noted that other European governments had increased the number of years of contributions used to calculate benefits (effectively lowering pension amounts). Labor Minister Celestino Corbacho joined labor leaders in disputing Fernandez Ordonez' prediction and criticizing him for scaring pensioners. Other PSOE members and GOS officials were less critical. The Congressional committee is starting to look at reforming the 1995 Toledo Pact on social security. (El Pais, 4/16-17)

Internet Users Group Criticizes New Culture Minister

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5.(U) The April 7 appointment of Angeles Gonzalez Sinde as Culture Minister has sparked a backlash by the Internet Users' (Internautas) Association. As president of the Spanish Academy of Film Arts and Sciences, Gonzalez Sinde made public statements, including at February's annual film industry awards ceremony (reftel), decrying the harm that illicit, unauthorized downloads are causing Spain's movie industry. In the view of the Internautas, her appointment is "almost a declaration of war and a real provocation." They claim she lacks the "aptitude, impartiality, and neutrality" required of a senior government official and should be rejected on conflict of interest grounds because she is a partner and administrator of several film production and distribution companies. For her part, Gonzalez Sinde has said she will listen to everyone's views and that internet users "should not be afraid, the web is unstoppable."

(Comment: The very vocal, populist Internautas' Association promotes unlimited file-sharing and targets anyone who advocates any restriction on internet activity. It is unlikely Zapatero will remove her. End Comment.) (El Pais, ABC 4/14-15)

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